

Medical Systems Business Briefing Questions and Answers

Q. I understand that there is progress in internal collaborations such as FHC*, Design Center, etc. Please tell us about any cross-business initiatives that will contribute to future growth.

* FHC : FUJIFILM Healthcare, established through the acquisition of the diagnostic imaging - related business of Hitachi Ltd.

A. As examples of synergies in the life science field, in the life science business division, we are developing regenerative medicine products with the aim of establishing a new treatment for meniscus injuries, while utilizing our medical systems business products, "SYNAPSE VINCENT" 3D image analysis system that can analyze knee joints in a minimally invasive manner.

In terms of R&D, we are accelerating development that combines the areas of expertise of FHC's equipment and FF's IT. In addition, we are introducing FF's front-loading development style, which means early involvement in design and other activities from the stage before product planning, up to FHC as well.

Q. Could you tell us about your regional strategy? How do you plan to expand into emerging and developed countries?

A. For emerging countries, we are expanding sales with a package that combines a broad equipment portfolio and IT. Our strategy of combining AI-based diagnostic support functions with equipment fits well with the challenges faced by emerging countries, where there are few doctors. In addition, the Company is also promoting tuberculosis diagnosis utilizing the combination of FDR Xair, a portable radiography device, and IT/AI, including automatic lesion recognition.

In developed countries, business negotiations are also increasing as the company proposes solutions that combine IT/AI with an expanded product lineup through integration with FHC. In addition to that, we will further expand the sales of our equipment leveraging our PACS, which is the global market leader, as well as our recently acquired digital pathology solution from Inspirata.

Q. Do you have any concerns about the anti-corruption movement in China?

A. There are some delays in workshops with hospitals, but overall, there is no major impact.

Q. I would like to ask about mid- to long-term numerical targets.

(1) You have brought forward your sales target of 700 billion yen to FY2025 by one year, Does this reflect the weaker yen? Or is it fundamental growth?

(2) Is there room for an upward revision to the sales target of 1 trillion yen for FY2030?

(3) You mentioned that you are aiming for an operating margin in the upper 10% range, Does this mean that you will maintain the current high level of margins or that you will further increase margins?

A. (1) Excluding FX effects, growth is still at 6% per year, a target that is achievable even without the support of a weaker yen.

(2) At present, the sales target for FY2030 remains unchanged at 1 trillion yen.

(3) OPM, currently around 15%, is targeted to reach a level close to 20% by 2030. We will maintain the current margin level for endoscopy and IVDs, which already have high profit margins. Also, there is room for further margin improvement in other products as well.

Q. Similar to Fujifilm, some companies have 3D and AI platforms in addition to modalities. Can you say that your product & AI platform is superior when compared to your competitors?

A. I would say it is superior. The major point is that our PACS "SYNAPSE" has the largest global market share. This allows us to accumulate a large amount of medical image data and also have abundant touch points with hospitals to conduct cutting-edge research. Based on this, we have been developing high-quality applications for the 3D image analysis system, "SYNAPSE VINCENT," in rapid succession, and have developed products that far surpass

those of its competitors in terms of both quality and quantity, and is utilizing them in our AI platform. We will develop AI for major diseases in-house, while adopting an open strategy for niche areas, resulting in a situation where "Nothing is missing".

Q. What is the market share of each product in medical equipment?

A. The market share of CT/MRI is in the single digits. In ultrasound, FHC's stationary type and FF's portable type have the No.3 global market share combined. The market share of endoscopes is about 20%. In general, there is a large potential for growth by utilizing AI and IT technologies in the future.

Q. You mentioned that you are developing generative AI, in what areas will it be used?

A. Due to strategic reasons and circumstances with the other party, we cannot disclose specifics at this time, but we are working at the elemental research level to see if there are areas where AI can go beyond physician diagnosis by utilizing "correct" data from physicians.

Q. You mentioned earlier that China's anti-corruption movement have had no impact, but what do you see as the risks going forward?

A. There are several hundred endoscope workshops every year, and although several have been cancelled recently, none of them have any impact on the execution of our plans at this point, and we continue to observe the situation.

Q. In order to improve profitability going forward, will you increase the profitability of AI and other recurring businesses? Or will you increase profitability of equipment?

A. We are proceeding with a hybrid strategy: by incorporating AI-based workflow support, we will achieve higher value-added and higher profitability for the equipment itself. In addition, we will provide a series of AI-based applications for the installed devices. On-premise hardware will be available at hospitals, and customers will be able to try AI in the cloud, and if they like it, they will purchase it.

Q. Endoscopy is doing well. What is your current market share? Do you have a mid- to long-term goal?

A. According to our in-house estimate, our market share is in the 20% range. Sales have doubled in the past 10 years, and we are aiming to further increase market share and double sales by 2030 through the use of AI and IT technologies.

Q. According to a Nikkei article, you plan to introduce intraoperative navigation systems to the market by 2025. Do you have a detailed plan?

A. In the surgical field, current sales of ERCP (endoscopic cholangiopancreatography), which is a combination of an X-ray fluoroscopy table and an endoscope, and others amount to approximately 5 billion yen. We aim to double its sales by entering the intraoperative navigation business in FY2025, although this will be subject to regulatory approval.

In entering the intraoperative navigation market, we will utilize the SYNAPSE VINCENT, which is a unique feature of our company compared to our competitors. How to reflect unexpected intraoperative events in the navigation system is an important point, and we are in the process of conducting joint research on this topic. In addition to responding to unexpected events during surgery, our concept is to "diagnose the invisible," so it is also important to detect risks in advance and prepare risk avoidance measures before an event.

Q. The fact that SYNAPSE VINCENT has more than 60 applications as of 2020, does this mean that you have been using and developing images from other companies' devices even before the integration with FHC?

A. As you are aware, data based on DICOM, an international standard for medical data communication, flows into our PACS, so we have been developing them without depending on medical device vendors.

Q. Is the PACS market share based on shipments? Or is it on an Install basis? Is it correct to understand that you have overtaken the market share of other companies?

A. The market share ratio is based on installations. In addition to our overwhelmingly high market share in Japan, we have been developing PACS in the U.S. for a long time and have gained a certain share in the U.S., the largest market for PACS.

While conventional PACS products from other companies have focused on stable data storage, our products have pioneered development from the perspective of "how data can be utilized and introduced into the workflow," and have introduced the latest technologies. In addition to Japan, we have established an AI research center in the U.S. to accelerate development.

Q. You mentioned that you will work with surgical robots, but will you work with each of the various companies as they enter the market? Or will you partner with specific players to increase your competitiveness?

A. Both. First, we signed an agreement in July to provide SYNAPSE VINCENT to Intuitive, the top manufacturer in the industry. Our strategy is to standardize our navigation system in the future, and then gradually expand it to the entire industry.

Q. Recently, there was a release that software from Lunit of Korea was installed in your X-ray system and is now covered by Japanese health insurance reimbursement. What is the rate of integration of AI software into medical devices?

A. For example, in the case of Lunit, the sales of our X-ray system combined with our solutions in Japan have been strong, with over 1000 facilities already implemented. For most newly established clinics, we propose a combination of Lunit solutions, resulting in an attachment rate that could be over 50%.

Q. In order to measure the progress of development based on an open strategy in the future, is it important to increase the number of technical partners? Or is it better to keep a close eye on the development status of existing vendors?

A. The latter. AI venture companies are currently being weeded out as the hype surrounding them settles down. Even if an AI venture company develops Computer Aided Diagnosis (CAD), they still need to collaborate with vendors like us who have platforms to implement these solutions in the field. Moreover, the number of vendors who possess technology capable of surpassing the AI we are developing is limited. Although our company adopts an open-vendor strategy, if a major AI emerges from within, we also have the option of developing our own in-house solution.